

CATAWBA COUNTY, NORTH CAROLINA

Management's Discussion and Analysis

As management of Catawba County, we offer readers of our financial statements this narrative overview and analysis of the financial activities of Catawba County for the fiscal year ended June 30, 2003. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative.

Financial Highlights

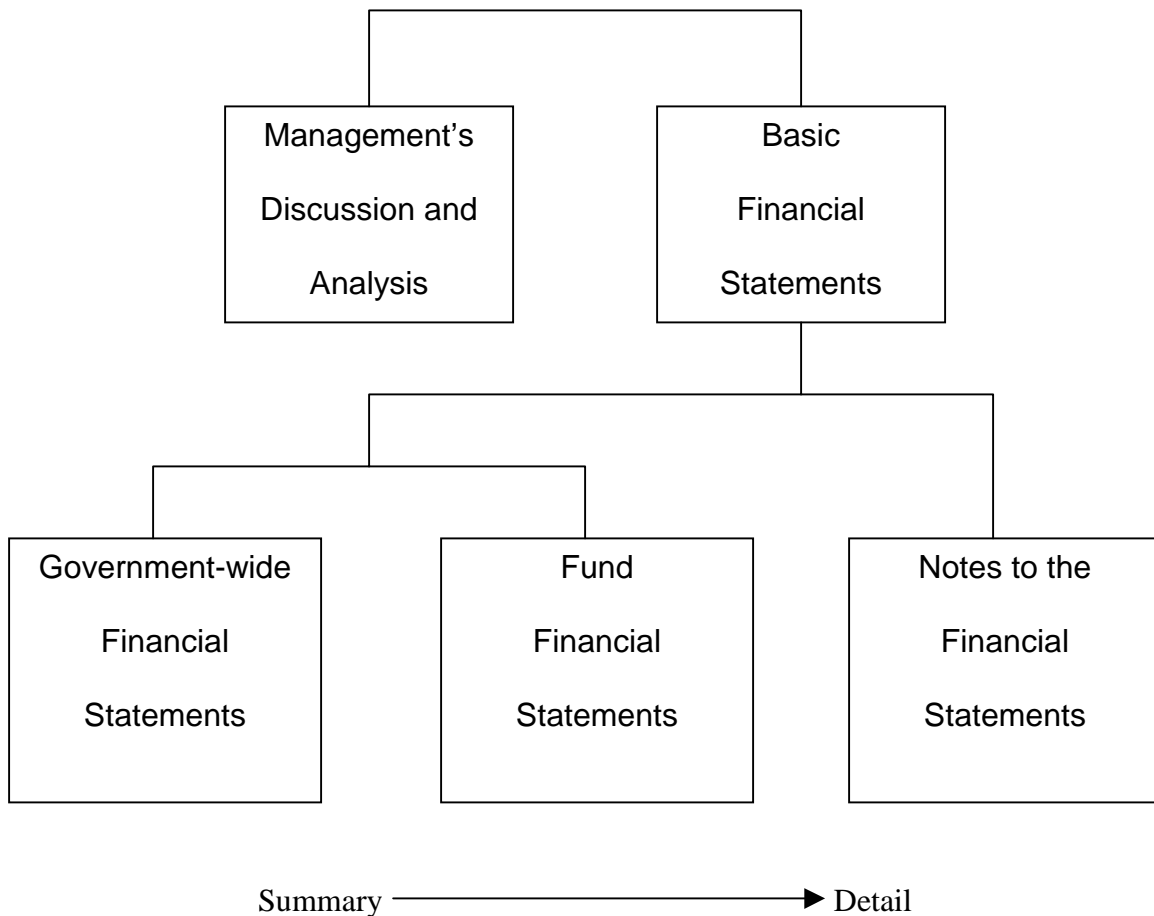
- The assets of Catawba County exceeded its liabilities at the close of the fiscal year by \$118,876,372 (*net assets*).
- The government's total net assets increased by \$15,272,122, primarily due to increased net assets in the General Fund. This compares to an increase of \$11,077,441 in 2002.
- As of the close of the current fiscal year, Catawba County's governmental funds reported combined ending fund balances of \$ 84,058,403, an increase of \$4,520,481 in comparison with the prior year. Approximately 84.8 percent of this total amount, or \$71,304,504, is available for spending at the government's discretion (*unreserved fund balance*). In 2002, the unreserved fund balance was \$68,005,203.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$20,108,900, or 15.9 percent of total general fund expenditures for the fiscal year. In 2002, unreserved fund balance in the General Fund was \$20,657,510 or 16 percent of total general fund expenditures.
- Catawba County's total debt decreased by \$7,013,954 (9.0%) during the current fiscal year. The key factor for this decrease is that Catawba County did not issue any new general obligation debt nor did it enter into any lease purchasing agreements in 2003.
- Catawba County maintained its AA-/Aa2 bond rating for the 22nd consecutive year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Catawba County's basic financial statements. The County's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Catawba County.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the County's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the County's non-

major governmental funds, all of which are added together in one column on the basic financial statements. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the County's financial status as a whole.

The two government-wide statements report the County's net assets and how they have changed. Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to gauge the County's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the County's basic services such as human services, education, public safety, parks, planning and general administration. Property and other taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. These include the solid waste services offered by Catawba County. The final category is the component units. Catawba Valley Medical Center (CVMC) is a public healthcare facility that is an entity of Catawba County. The County appoints the board of trustees for CVMC and has issued debt on its behalf. Although legally separate from the County, the ABC Board is important to the County because the County is financially accountable for the Board by appointing its members and because the Board is required to distribute its profits to the County.

The government-wide financial statements are on pages 15-18 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Catawba County, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of Catawba County can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds

are reported using an accounting method called *modified accrual accounting* which provides a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Catawba County adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – Catawba County has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for its solid waste operations. This fund is the same as those separate activities shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Catawba County has three fiduciary funds, all of which are agency funds.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 33-62 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Catawba County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 64 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of Catawba County exceeded liabilities by \$118,876,372,

as of June 30, 2003. As of June 30, 2002 the net assets of Catawba County stood at \$103,604,250. The County's net assets increased by \$15,272,122 for the fiscal year ended June 30, 2003 compared to an increase of \$11,077,441 in 2002. One of the largest portions (69.6%) reflects the County's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. Catawba County used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Catawba County's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate those liabilities. An additional portion of Catawba County's net asset (2.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$33,287,808 is unrestricted. In 2002, the amount of net assets invested in capital assets net of related debt was \$79,004,554, with restricted assets standing at \$4,636,398. The remaining \$19,963,298 was unrestricted net assets for that year.

Catawba County's Net Assets

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 102,719,048	\$ 97,821,214	\$ 14,069,702	\$ 12,170,754	\$ 116,788,750	\$ 109,991,968
Capital assets	69,468,037	65,849,427	13,580,563	13,841,215	83,048,600	79,690,642
Total assets	\$ 172,187,085	\$ 163,670,641	\$ 27,650,265	\$ 26,011,969	\$ 199,837,350	\$ 189,682,610
Long-term liabilities outstanding	\$ 59,477,282	\$ 66,417,886	\$ 3,693,136	\$ 3,081,702	\$ 63,170,418	\$ 69,499,588
Other liabilities	17,434,168	16,199,593	356,392	379,179	17,790,560	16,578,772
Total liabilities	\$ 76,911,450	\$ 82,617,479	\$ 4,049,528	\$ 3,460,881	\$ 80,960,978	\$ 86,078,360
Net assets:						
Invested in capital assets, net of related debt	\$ 69,185,903	65,163,339	13,580,563	13,841,215	82,766,466	79,004,554
Restricted	2,822,098	4,636,398	-	-	2,822,098	4,636,398
Unrestricted	23,267,634	11,253,425	10,020,174	8,709,873	33,287,808	19,963,298
Total net assets	\$ 95,275,635	\$ 81,053,162	\$ 23,600,737	\$ 22,551,088	\$ 118,876,372	\$ 103,604,250

Several particular aspects of the County's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 97.10%, higher than the statewide average of 96.49%.
- Continued low cost of debt due to the County's high bond rating.
- Decrease in long-term debt due to general obligation bond refunding in December 2002 and no new debt issued during the year.
- Increase in sales tax revenue with Article 44 sales tax, effective December 1, 2002.

Catawba County Changes in Net Assets

Figure 3

	Governmental Activities 2003	Business-type Activities 2003	Total 2003
Revenues:			
Program revenues:			
Charges for services	\$ 21,461,463	\$ 5,865,730	\$ 27,327,193
Operating grants and contributions	30,045,717	63,206	30,108,923
Capital grants and contributions	-	-	-
General revenues:			
Property taxes	59,644,241	-	59,644,241
Other taxes	25,203,512	180,656	25,384,168
Grants and contributions not restricted to specific programs	1,379,229	-	1,379,229
Other	2,107,354	336,438	2,443,792
Total revenues	<u>\$ 139,841,516</u>	<u>\$ 6,446,030</u>	<u>\$ 146,287,546</u>
Expenses:			
General government	\$ 7,488,739	\$ -	\$ 7,488,739
Public safety	17,113,397	-	17,113,397
Environmental protection	288,825	-	288,825
Economic and physical development	3,995,945	-	3,995,945
Human services	57,455,455	-	57,455,455
Cultural and recreation	2,256,079	-	2,256,079
Education	33,710,855	-	33,710,855
Interest on long-term debt	3,309,748	-	3,309,748
Landfill	-	5,396,381	5,396,381
Total expenses	<u>\$ 125,619,043</u>	<u>\$ 5,396,381</u>	<u>\$ 131,015,424</u>
Increase in net assets	\$ 14,222,473	\$ 1,049,649	\$ 15,272,122
Net assets - beginning of year	<u>81,053,162</u>	<u>22,551,088</u>	<u>103,604,250</u>
Net assets - end of year	<u><u>\$ 95,275,635</u></u>	<u><u>\$ 23,600,737</u></u>	<u><u>\$ 118,876,372</u></u>

Governmental activities. Governmental activities increased the County's net assets by \$14,222,473, thereby accounting for 93% of the total growth in the net assets of Catawba County. Key elements of this increase are as follows:

- Increase in property tax base of 3.5% resulting in increased tax collections
- Implementation of third ½% local option sales tax, Article 44 effective December 1, 2002.
- Reduction in capital expenditures in the Schools' Capital Projects Fund.
- Increase in ambulance revenues due to higher Medicare reimbursement rates and increased collection percentage.
- Increased rates for Register of Deeds services in place for entire year.

Business-type activities: Business-type activities increased Catawba County's net assets by \$1,049,649, accounting for 7% of the total growth in the government's net assets. The key element of this increase is as follows:

- Increase in capital assets, net of accumulated depreciation.
- Increased fee rates for disposal at convenience centers, construction debris disposal, and grinding of land clearing debris.

Financial Analysis of the County's Funds

As noted earlier, Catawba County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of Catawba County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$20,108,900, while total fund balance reached \$30,162,202. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 15.9 percent of total General Fund expenditures, while total fund balance represents 23.9 percent of that same amount.

At June 30, 2003, the governmental funds of the County reported a combined fund balance of \$84,058,403, a 5.2 percent increase over last year. The primary reason for this increase is the increase in fund balance in the General Fund and Water & Sewer Construction Fund.

General Fund Budgetary Highlights: During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the

original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues by \$629,654, or .5%.

The actual operating revenues of the General Fund were less than final budgeted amounts by \$66,086. The major factors contributing to this shortfall was the elimination of inventory and intangible reimbursements and homestead exemption revenues. Replacing these lost revenues was the addition of Article 44 sales tax. The county was also able to offset these losses through reductions in expenditures in all areas including human services, education and general government. As a result, actual operating expenditures were less than budgeted amounts by \$8,707,760.

Proprietary Funds. Catawba County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solid Waste Fund at the end of the fiscal year amounted to \$10,020,174. Other factors concerning the finances of this fund have already been addressed in the discussion of Catawba County's business-type activities.

Capital Asset and Debt Administration

Capital assets. Catawba County's investment in capital assets for its governmental and business-type activities as of June 30, 2003, totals \$83,048,600 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include:

- Purchased three new ambulances for the Emergency Services Department.
- Purchased sixteen new road patrol vehicles for the Sheriff's Department.
- Addition of three shelters at Baker's Mountain Park.
- Purchase of three vehicles for Mental Health Department.
- Purchase of five vehicles for Public Health Department.
- Addition of water and sewer infrastructure assets.
- Purchase of three service vehicles, wheel loader and water truck for the solid waste facility.
- Addition of construction in progress on a construction/demolition solid waste facility.

Catawba County's Capital Assets

Figure 4

CATAWBA COUNTY'S CAPITAL ASSETS (net of depreciation)

	Governmental Activities		Business-type Activities		Total
	2003		2003		2003
Land	\$ 6,092,870	\$	3,935,027	\$	10,027,897
Buildings	44,168,967		742,720		44,911,687
Improvements other than buildings	14,671,528		2,694,118		17,365,646
Machinery, equipment and vehicles	3,816,856		3,304,034		7,120,890
Construction in progress	717,816		2,904,664		3,622,480
Total	\$ 69,468,037	\$	13,580,563	\$	83,048,600

Additional information on the County's capital assets can be found in note 3.A. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2003, Catawba County had total bonded debt outstanding of \$63,040,000, all of which is debt backed by the full faith and credit of the County.

Catawba County's Outstanding Debt General Obligation Bonds

Figure 5

	Governmental Activities		Business-type Activities		Total
	2003	2002	2003	2002	2003 2002
General obligation bonds	\$ 63,040,000	\$ 69,650,000	\$ -	\$ -	\$ 63,040,000 \$ 69,650,000

Catawba County's total debt decreased by \$7,013,954 (9.0 percent) during the past fiscal year with no new bonded debt being issued or authorized.

As mentioned in the financial highlights section of this document, Catawba County maintained for the 22nd consecutive year, its Aa2 bond rating from Moody's Investor Service and AA- rating from Standard and Poor's Corporation. This bond rating is a clear indication of the sound financial condition of Catawba County and a primary factor in keeping interest costs low on the County's outstanding debt.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Catawba County is \$858,658,485. The County has no bonds authorized but un-issued at June 30, 2003.

Additional information regarding Catawba County's long-term debt can be found in note 3.B. on pages 54-59 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the County.

- The tax base in Catawba County increased 3.5% to \$11,568,969,626.
- The County's tax rate is .48/\$100, the 2nd lowest among urban (>100,000 population) counties and 9th lowest among all 100 counties in North Carolina

Budget Highlights for the Fiscal Year Ending June 30, 2004

Governmental Activities: Property taxes are estimated to increase by 3 percent for fiscal year 2004 with sales tax revenues increasing by 2 percent. The County will use these increases in revenues to finance existing programs.

Budgeted expenditures for education are expected to increase by \$1,518,973 or 5.4 percent. Medicaid costs are expected to rise \$750,000 in fiscal year 2004. Additional funding is included for the Economic Development Corporation to diversify the economic base of the County by recruiting large, capital-intensive companies. Personnel increases include eight positions at the new Oxford EMS base, eleven positions with the merger of City and County building services, a rescue coordinator, and a security deputy at CVCC. Additional funding is included for data conversion and hardware for the new tax software and replacement of voting equipment.

Business – type Activities: With revenues supporting expenditures, the County has not budgeted any increase in tipping fees for the eighth consecutive year in the solid waste

General operating expenses will increase by 3.5% to cover increased personnel costs, supplies and other materials. Capital expenses include funding for the purchase of a new off-road dump truck, motorgrader, and generator stand. The County will continue to

dedicate 1.5 cents of the tax rate, or \$1.95 million to fund water and sewer projects, including the second phase installation of a waterline loop to supply adequate water to Southeastern Catawba County.

Requests for Information

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Catawba County, PO Box 389, Newton, NC 28658.

